LEGISLATIVE SERVICES AGENCY
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FISCAL IMPACT STATEMENT

LS 6451 | **NOTE PREPARED:** Dec 10, 2002
BILL NUMBER: HB 1522 | **BILL AMENDED:**

SUBJECT: Student Loan Tax Credit.

FIRST AUTHOR: Rep. Kuzman | **BILL STATUS:** As Introduced
FIRST SPONSOR:

FUNDS AFFECTED: X **GENERAL** | **IMPACT:** State
X **DEDICATED**
FEDERAL

Summary of Legislation: The bill creates an Adjusted Gross Income (AGI) Tax credit for employees of the State of Indiana or a political subdivision who pay interest on educational loans. The bill provides that the tax credit may equal up to 50% of the loan interest paid by the employee in a taxable year. It also allows the employee to carry over excess credit to succeeding taxable years.

Effective Date: July 1, 2003.

Explanation of State Expenditures: The Department of State Revenue (DOR) would incur some administrative expenses relating to the revision of tax forms, instructions, and computer programs to incorporate this credit. These expenses presumably could be absorbed given the DOR's existing budget and resources.

Explanation of State Revenues: The bill would reduce state AGI Tax liabilities of individual taxpayers who are Indiana state employees or employees of a political subdivision. Depending upon the response to the credit by qualified taxpayers, the revenue loss due to this bill could potentially total $1.1 M to $3.3 M in FY 2005. This range assumes an initial response rate to the tax credit by qualifying taxpayers of 25% to 75%.

Background: The bill creates the Educational Loan Interest Credit against the individual AGI Tax. The tax credit would be available to full-time and part-time employees of the state or a political subdivision, including school corporations. The credit is equal to 50% of the interest paid by the taxpayer on student loans during the tax year. For an employee who works for the state or a political subdivision for only part of the year, the credit must be prorated based on the number of days or hours worked. Under the bill, the credit is not refundable and carrybacks are not permitted. However, if the amount exceeds a taxpayer's liability in a given year, the excess may be carried forward for up to ten years. Since the tax credit is effective beginning in tax year 2004, the fiscal impact would begin in FY 2005. Eighty-six percent of the revenue from the AGI Tax on individuals is deposited in the state General Fund, and 14% of this revenue is deposited in the Property Tax Replacement Fund.

Methodology: The fiscal impact is based on an estimate of the potential number of state and local government employees that may be paying student loan costs. An estimate of the number of state employees between the ages of 22 and 31 was generated from data of the Department of State Personnel. This age group was selected as the most likely cohort that would be carrying debt from student loans. An estimate of potential local unit employees who might qualify for the tax credit was derived based on the estimated state employee total and March 2001 U.S. Census totals indicating the ratio of local government (including school corporation) employees to state employees in Indiana. Loan interest estimates are based on the average amount of interest reported by U. S. taxpayers claiming the federal income tax deduction for student loan interest in tax years 1998 to 2000. (This deduction went into effect in tax year 1998.) The average interest amount is estimated for tax year 2004 assuming a 5% annual rate of growth after 2000. In the first three years, the average deduction increased annually by an average of 13%, but increased from 1999 to 2000 by 7.9%

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: Department of State Revenue.

Local Agencies Affected:

Information Sources: Internal Revenue Service, Statistics of Income, *Individual Income Tax Returns, Preliminary Data, 1999 & 2000*; U. S. Census Bureau, *State Government Employment Data & 2001 Public Employment Data, Local Governments, March 2001*.

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